

Other Information



SUCCESS STORY

Contributing to Community is a Business Principle

DSFederal
Rockville, MD



In 2007 **Sophia Parker** founded DSFederal, a company specializing in grant program management and data analytics, training and education, and information technology solutions. Within a year, the company grew to 120 employees with locations in eight states. DSFederal revenue increased from \$179,000 in 2009 to \$10.9 million in 2013. Major clients include the Department of Health and Human Services and the Department of Homeland Security, among others. The company's annual income has reached \$12 million, and it has been ranked 55th among all rapidly growing small and medium-size enterprises nationwide.

Developing and cultivating a culture of innovation is also a key component to DSFederal's success. The company developed innovative methods for spreading government information using mobile apps, in line with the 2011 Digital Government Strategy.

Ms. Parker remembers humble beginnings, when she was the only employee and had \$600 in the bank. No one was willing to lend her the money she needed to keep her business afloat. She began working with a counselor at the Maryland Small Business Development Center and secured a \$26,000 SBA-guaranteed loan which helped carry her through a lean year. She successfully applied to SBA's 8(a) Business Development program in 2008 and has been actively pursuing and winning contracts ever since, enabling DSFederal to increase revenue every year since 2009. "DSFederal would never be here if it weren't for SBA," she said.

U. S. Small Business Administration

Schedule of Spending

For the Years Ended September 30, 2015 and 2014 (Unaudited)

(Dollars in Thousands)

	2015			2014		
	Budgetary	Non-budgetary Financing	Total	Budgetary	Non-budgetary Financing	Total
What Money is Available to Spend?						
Total Resources	\$ 2,821,694	\$ 7,475,094	\$ 10,296,788	\$ 3,024,249	\$ 7,802,410	\$ 10,826,659
Less Amount Not Approved for Spending by SBA	390,580	1,081,724	1,472,304	398,548	1,586,238	1,984,786
Less Amount Approved for Spending by OMB	895,879	2,610,482	3,506,361	964,503	2,762,958	3,727,461
Total Amounts Agreed to be Spent	\$ 1,535,235	\$ 3,782,888	\$ 5,318,123	\$ 1,661,198	\$ 3,453,214	\$ 5,114,412
How was the Money Spent /Issued?						
Salary & Benefits	\$ 391,177	\$ —	\$ 391,177	\$ 410,302	\$ —	\$ 410,302
Grants	195,892	—	195,892	177,934	—	177,934
Rent	45,434	—	45,434	45,461	—	45,461
Contracts	104,337	—	104,337	116,398	—	116,398
Travel	13,712	—	13,712	10,305	—	10,305
Other Administrative Expenses	99,704	—	99,704	84,049	—	84,049
Telecommunications	11,047	—	11,047	9,926	—	9,926
Surety Bonds Defaults	13,799	—	13,799	11,273	—	11,273
Business Loans	46,586	54,799	101,385	50,356	55,156	105,512
Business Loan Guarantees	354,996	3,148,898	3,503,894	487,900	2,769,909	3,257,809
Disaster Lending	258,551	579,191	837,742	257,294	628,149	885,443
Total Amounts Agreed to be Spent	\$ 1,535,235	\$ 3,782,888	\$ 5,318,123	\$ 1,661,198	\$ 3,453,214	\$ 5,114,412
Who did the Money go to?						
Other Federal Agencies	\$ 340,201	\$ 2,172,935	\$ 2,513,136	\$ 355,061	\$ 1,469,413	\$ 1,824,474
Public Individuals and Organizations	1,195,034	1,609,953	2,804,987	1,306,137	1,983,801	3,289,938
Total Amounts Agreed to be Spent	\$ 1,535,235	\$ 3,782,888	\$ 5,318,123	\$ 1,661,198	\$ 3,453,214	\$ 5,114,412

The Schedule of Spending (SOS) was developed to bridge the gap between budgetary accounting reports, such as the Statement of Budgetary Resources (SBR), and the public's desire for a transparent view of how federal money was spent. The SOS allows the reader to review SBA's spending in more understandable terms and also provides the public with a high level view of who benefited from federal funds. Payments to Other Federal Agencies include rent to the General Service Administration and Downward Subsidy Reestimates payable to Treasury. Subsidy reestimates are discussed in Note 6A of the Consolidated Financial Statements.

To obtain a more detailed view of SBA's beneficiaries, the public can access general information about individual awards on USASpending.gov. The data provided on the USASpending.gov website however does not include all spending information provided in the SBR and SOS. For example, SBA is primarily a federal credit agency and SBA's nonbudgetary financing items, which are related to the direct and guarantee loan guarantee programs, are not included on USASpending.gov.

OIG REPORT ON THE MOST SERIOUS MANAGEMENT AND PERFORMANCE CHALLENGES

REPORT ON THE MOST SERIOUS MANAGEMENT AND PERFORMANCE CHALLENGES IN FISCAL YEAR 2016



October 15, 2015

REPORT NUMBER 16-01



**U.S. SMALL BUSINESS ADMINISTRATION
OFFICE OF INSPECTOR GENERAL
WASHINGTON, D.C. 20416**

**Memorandum
Management Challenges**

DATE: October 15, 2015

TO: Maria Contreras-Sweet
Administrator

FROM: Peggy E. Gustafson 
Inspector General

SUBJECT: Report on the Most Serious Management and Performance Challenges Facing the Small Business Administration in Fiscal Year 2016

In accordance with the Reports Consolidation Act of 2000, we are providing you with the Office of Inspector General's (OIG) *Report on the Most Serious Management and Performance Challenges Facing the Small Business Administration (SBA) in Fiscal Year (FY) 2016*. The overall goal is to focus attention on significant issues with the objective of working with Agency managers to enhance the effectiveness of SBA's programs and operations. We have prepared similar reports since FY 2000.

Within each management challenge is a series of recommended actions to enhance the effectiveness of agency programs and operations. Each recommended action is assigned a color score to indicate its status. The scores are as follows: green for "implemented," yellow for "substantial progress," orange for "limited progress," and red for "no progress." If a recommended action was added since last year's report, no color score was assigned, and the recommended action has been designated as "new." Actions that were scored green last year, which remained green this year, have been moved up to the "history bar" above the recommended actions. The history bar highlights any progress that the Agency has made on a challenge over the past 4 fiscal years (or as long as the challenge has existed, if shorter) by showing the number of actions that have moved to green each year. In addition, an arrow in the color box indicates that the color score went up or down from the prior year.

The following table provides a summary of the most serious management and performance challenges facing SBA in FY 2016.

Table 1. Summary of the Most Serious Management and Performance Challenges Facing the SBA in FY 2016

	Challenge	Color Scores					
		Status at End of FY 2015				Change from Prior Year	
		Green	Yellow	Orange	Red	Up ↑	Down ↓
1	Small Business Contracting		1				
2	IT Security		2	3			1
3	Human Capital	1	2			1	
4	Lender Oversight		2				
5	8(a) Business Development Program			2	1		
6	Loan Agent Fraud	1	2	1		2	
7	Loan Management and Accounting System	4				4	
8	Improper Payments – 7(a) program	1	3			1	
9	Disaster Loan program (NEW)						
10	Acquisition Management	1		4		1	
	TOTAL	8	12	10	1	9	1

A significant change in this year's report involves small business contracting (Challenge 1). SBA is responsible for managing and overseeing the small business procurement process throughout the Federal Government. Last year, we reported that procurement flaws allow large firms to obtain small business awards and allow agencies to count contracts performed by large firms towards their small business goals. While large firms continue to receive contracts that are counted towards small business goals, we have realigned the discussion to include our concerns regarding weaknesses in small business contracting programs and the reliability of data used to calculate contracting goal achievements.

In addition, we added a new challenge regarding SBA's Disaster Assistance Program (Challenge 9). SBA's disaster assistance helps people and businesses recover from disasters by providing affordable, timely, and accessible loans to homeowners, renters, and businesses. However, there is an inherent risk of non-repayment for disaster loans because these loans repair or replace existing property, which means that loan recipients may be paying twice to maintain the same assets. In carrying out its mission, SBA must balance competing priorities to deliver timely assistance and reduce the risk of fraud and default.

We also removed the challenge pertaining to SBA's implementation of a quality control program in its loan centers (previously Challenge 4). SBA has made progress in implementing a quality control program for all of its loan centers. SBA's program is designed to verify and document compliance with the loan process, from origination to close-out, and to identify where material deficiencies exist so that the Agency can take remedial action. While SBA has made progress in implementing a quality control program, further improvement is needed for SBA to continue to demonstrate that all elements of the program are being completed and that the program is effective at identifying and correcting material deficiencies. We will continue to monitor SBA's quality control program during FY 2016 to verify that reviews are completed and effective at identifying and correcting material deficiencies.

The management challenge process is an important tool that we hope will assist the Agency in prioritizing its efforts to improve program performance and enhance its operations. We look forward to continuing to work with SBA's leadership team in addressing the Agency's management challenges.

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Challenge 1. Weaknesses in Small Business Contracting Programs and Inaccurate Procurement Data Undermine the Reliability of Contracting Goals Achievements

The Small Business Act established a Government-wide goal that 23 percent of all prime contracts be awarded to small businesses each fiscal year. As the advocate for small business, SBA should strive to ensure that only eligible small firms obtain and perform small business awards. Further, SBA should ensure that procuring agencies accurately report contracts awarded to small businesses when representing their progress in meeting small business contracting goals. However, over the years, Congress has expressed concerns about the accuracy of the Small Business Goaling Report; this has been substantiated by OIG audits and other Government studies, which have shown widespread misreporting by procuring agencies, since many contract awards that were reported as having gone to small firms have actually been substantially performed by larger companies. Awards made to ineligible firms impact procurement opportunities for small businesses and damage SBA's credibility in reporting accurate small business contracting goals achievements. While some contractors may misrepresent or erroneously calculate their size, the incorrect reporting also results from errors made by Government contracting personnel, including the misapplication of small business contracting rules. Without reliable data, SBA cannot accurately measure the Federal Government's small business procurement goals achievements, which in turn weakens the ability of Congress and other Federal policy makers to determine whether the Government is maximizing contracting opportunities for small businesses.

In September 2014, we issued Report 14-18, which identified over \$400 million in FY 2013 contract actions that may have been awarded to ineligible firms. We also found that over \$1.5 billion dollars in FY 2013 contract actions went to firms that were no longer in the 8(a) Business Development or Historically Underutilized Business Zone (HUBZone) Programs. SBA regulations permit procuring agencies to claim small disadvantaged business and HUBZone goaling credit on certain contract actions, even after firms have left the program. In our opinion, the amount of dollars that SBA reports to Congress and the public as being performed by 8(a) and HUBZone firms in the Small Business Goaling Report is overstated by including contract actions performed by former program participants. Further, in Report 13-03, we identified weaknesses in the 8(a) Mentor Protégé Program that could also allow procuring agencies to include in their small business goal achievements contracts awarded to small businesses in which large businesses perform most of the work. In addressing deficiencies identified in these reports, SBA has begun to correct weaknesses within its small business information systems that impact the accuracy of goaling data. While SBA has taken steps to address reporting accuracy, further progress is needed.

In addition, OIG and GAO have both recently reported weaknesses in SBA's controls that would ensure only eligible firms receive contracts set-aside for the Women Owned Small Business Federal Contracting Program (WOSBP). The National Defense Authorization Acts (NDAA) for FY 2013 and FY 2015 made major programmatic changes to WOSBP. Specifically, the NDAA for 2013 removed previously existing contract caps on set-aside awards for which WOSB and economically disadvantaged WOSB firms were able to compete. The NDAA for 2015 granted contracting officers the authority to award sole-source awards to firms in WOSBP and required firms to be certified by a Federal agency, a State government, the Administrator, or a national certifying entity approved by the Administrator. However, SBA has opted to implement the sole-source authority provision first—separate from a certification program. We believe allowing sole source contracting authority in WOSBP, without implementing the contemporaneously required certification program, is inconsistent with SBA's statutory authorization and exposes the program to abuse. Absent a certification program, the Government is more likely to award WOSBP contracts to ineligible firms.

Likewise, SBA failed to reduce the size standard of businesses it defines as small when the Agency's own analysis indicated it was appropriate to do so. Because SBA has not adhered to its own analysis, small businesses will need to compete against larger companies within certain North American Industry Classification System (NAICS) codes.¹ Within those NAICS codes, the benefits intended for small business contractors may instead go to larger concerns. Similarly, small

¹ NAICS classifies business establishments for the purpose of collecting, analyzing, and publishing statistical data related to the U.S. economy. SBA uses NAICS as a basis for its size standards.

businesses will compete against larger concerns within those NAICS codes so that the goaling numbers may be further distorted.

SBA performs surveillance reviews to assess Federal contracting agencies' compliance with small business programs' requirements and to verify that agencies are properly measuring their small business goal achievements. SBA has implemented a new Standard Operating Procedure (SOP) to ensure consistency in conducting its surveillance reviews. According to SBA, it has conducted over 60 surveillance reviews using the new SOP, and it continues to improve its surveillance review process. We are working with the Agency to verify that the reviews are conducted in a thorough and consistent manner.

Although SBA relies on Federal agencies to implement its programs and maximize procurement opportunities for small businesses, SBA is ultimately responsible for ensuring that small businesses receive a fair and equitable opportunity to participate in Federal contracts. As such, SBA needs to enhance its controls and continue to collaborate with other agencies to improve procurement data accuracy supporting small business contracting goals. Similarly, SBA needs the full range of Federal program enforcement tools at its disposal. To this end, the Agency should modify its Program Fraud Civil Remedies Act (PFCRA) regulations so that SBA can pursue any small business contracting program violations, subject to the PFCRA's jurisdictional limits, under that statute.

Number of Actions Accomplished (Green Status) During Last Four Fiscal Years (Challenge first reported in FY 2005)	2011: 1	2012: 1	2013: 0	2014: 1
Recommended Actions for FY 2016				Status at end of FY 2015
1. Revise the surveillance review process to ensure that reviews are conducted in a thorough and consistent manner. (Previously action 2)				Yellow
2. Strengthen controls to ensure the accuracy of the Federal Government's annual small business procurement goals achievements reported in the Small Business Goaling Report.				New
3. Implement a certification process for WOSBP.				New
4. Revise SBA's Program Fraud Civil Remedies Act regulations so that SBA can pursue violations of its Federal contracting programs and demonstrate a capacity for taking enforcement actions under that statute.				New

 -Implemented
  -Substantial Progress
  -Limited Progress
  -No Progress





Challenge 2. Weaknesses in Information Systems' Security Controls Pose Significant Risks to the Agency

Recent Government-wide security breaches have heightened the importance of continuously monitoring networks and software applications. OIG and its external auditor have identified weaknesses when on-boarding and separating SBA personnel. In addition, SBA needs to address long-standing security weaknesses in the following areas:

- SBA's system software controls have long-standing recommendations relating to timely baseline configurations of SBA's IT platforms and patching operating systems, devices, and database management systems.
- SBA's segregation of duty controls continue to have open recommendations relating to restricting access to system software and effectively reviewing system and application logs.
- SBA's IT security management program continues to have open recommendations relating to IT security oversight as well as improvements in SBA's compliance with guidance provided in the Federal Information Security Management Act of 2002 (FISMA).

To show improvement in the above areas, SBA's Office of the Chief Information Officer, in conjunction with SBA's various program offices, will need to implement tools and capabilities to provide effective oversight and continuously monitor computer security controls.

Number of Actions Accomplished (Green Status) During Last Four Fiscal Years (Challenge first reported in FY 1999)	2011: 1	2012: 0	2013: 1	2014: 0
Recommended Actions for FY 2016				Status at end of FY 2015
1. Access controls are in place and operating effectively, and contractors are not granted system access until they have obtained the required background investigations and/or security clearances.				Orange ↓
2. System software controls are in place and operating effectively.				Orange
3. Segregation of duty controls are in place and operating effectively.				Orange
4. The plan of action and milestones accurately report all computer security weaknesses and corrective actions.				Yellow
5. The IT security management program effectively addresses information security in systems that support the operations and assets of the organization.				Yellow

 -Implemented
  -Substantial Progress
  -Limited Progress
  -No Progress





Challenge 3. SBA Needs Effective Human Capital Strategies to Carry Out its Mission Successfully and Become a High-Performing Organization

The Office of Human Resource Solutions (OHRS) made significant progress toward its workforce and succession planning goals during FY 2015. By the beginning of the fiscal year, the Agency had contracted the services of the Office of Personnel Management's (OPM) fee-for-service arm, HR Solutions, who would review existing competency models, related job materials, and job analysis information in order to provide feedback for SBA's existing competency models. OPM will then facilitate focus groups to update and validate the model based on HR Solutions' feedback. Using the updated and validated competency model, OHRS will also perform a competency gap analysis for each mission-critical occupation and provide a report on the gaps existing in the workforce, recruitment, retention, and employee development program decisions. HR Solutions is expected to complete its work in FY 2016. In order to complete this recommended action, SBA's workforce and succession planning goals should establish appropriate metrics to gauge its success at having the right people, in the right jobs, at the right time.

OHRS also continues to make substantial progress to update and establish standard operating procedures (SOP) for human capital management. In FY 2015, OHRS issued one SOP and advanced two other critical SOPs into the final stages of the clearance process. In addition, OHRS issued the Merit Promotion Plan SOP, updated the Delegation Examination Handbook, and moved two other SOPs into the formal clearance process not previously identified in this challenge. OHRS plans to work on updating the last SOP included in OIG's recommended actions—Discipline and Adverse Actions—in FY 2016.

The Agency has implemented the third recommended action under this management challenge. In FY 2015, OHRS established an employee engagement working group to complement the ongoing SBA Way Initiative established in FY 2013. The employee engagement working group meets bi-weekly and is responding to the White House, Office of Management and Budget (OMB), and OPM guidance with a four-pronged approach: (1) individual accountability, (2) organizational performance, (3) communication, and (4) initiative and activity.

Number of Actions Accomplished (Green Status) During Last Four Fiscal Years (Challenge first reported in FY 2001, revised FY 2007)	2011: 0	2012: 0	2013: 1	2014: 0
Recommended Actions for FY 2016				Status at end of FY 2015
1. Ensure the Agency has an effective, comprehensive workforce and succession plan that aligns talent needs and capabilities with SBA's FY 2011-2016 strategic plan. SBA's workforce and succession planning goals should reflect the need to recruit and retain the appropriate talent, and should establish appropriate metrics to gauge SBA's success at having the right people, in the right jobs, at the right time.				Yellow
2. Ensure that human capital management SOPs are updated and appropriately structured to support the Agency's long-term goals and objectives and Government-wide human capital management initiatives. <i>(Previously recommended action #3)</i>				Yellow
3. Demonstrate sustained progress toward a high-performing, employee-driven culture through activity and effort as prioritized by SBA's employee engagement initiative for two consecutive years (end of FY 2015) <i>(Previously recommended action #4, modified in February 2014).</i>				Green ↑

 -Implemented
  -Substantial Progress
  -Limited Progress
  -No Progress

Challenge 4. SBA Needs to Further Strengthen its Oversight of Lending Participants

Prior OIG and GAO reports disclosed weaknesses in SBA's oversight of lenders that participate in its programs. The risks inherent in delegated lending require an effective oversight program to (1) monitor compliance with SBA policies and procedures and (2) take corrective actions when a material noncompliance is detected. However, in prior years, we have found that SBA had not established sufficient controls that would identify—and safeguard against—the risks some lenders pose. For example, in a September 2012 audit report, OIG found that SBA did not always recognize the significance of lender weaknesses or determine the risks they posed to the Agency during its onsite reviews (Report 12-20R). The Agency also did not link the risks associated with these weaknesses to the lenders' corresponding risk ratings and assessments of operations. Further, SBA did not require lenders to correct performance problems that could have exposed SBA to unacceptable levels of financial risk.

However, since this management challenge was first issued in 2001, SBA has made substantial progress in its oversight of lending participants. In FY 2013, SBA (1) developed risk profiles and lender performance thresholds, (2) developed a select analytical review process to allow for virtual risk-based reviews, (3) updated its lender risk rating model to better stratify and predict risk, and (4) conducted test reviews under the new risk-based review protocol. These efforts have demonstrated that onsite reviews are now conducted on the highest-risk lending participants based on expanded selection criteria.

Further, in FY 2014, SBA improved its monitoring and verification of lender corrective actions by: (1) developing corrective action assessment procedures, (2) finalizing a system to facilitate the corrective action process, and (3) populating the system with lender oversight results requiring corrective action. In FY 2015, SBA's Office of Credit Risk Management (OCRM) engaged contractor support to expand on its corrective action follow-up process. Additionally, OCRM issued its FY 2015 Risk Management Oversight Plan, which included plans to conduct 170 corrective action reviews between 7(a) and 504 lenders.

Number of Actions Accomplished (Green Status) During Last Four Fiscal Years (Challenge first reported in FY 2001)	2011: 0	2012 7(a) loans: 1 504 loans: 1	2013 7(a) loans: 2 504 loans: 2	2014 7(a) loans: 0 504 loans: 0
Recommended Actions for FY 2016	Status at end of FY 2015			
	7(a)		504	
1. Monitor and verify implementation of corrective actions to ensure effective resolution prior to close-out. (Previously Recommended Action #3)	Yellow		Yellow	

■ -Implemented
 ■ -Substantial Progress
 ■ -Limited Progress
 ■ -No Progress

Challenge 5. SBA Needs to Modify the Section 8(a) Business Development Program So More Firms Receive Business Development Assistance, Standards for Determining Economic Disadvantage are Justifiable, and Firms Follow 8(a) Regulations When Completing Contracts

SBA's 8(a) Program was created to provide business development assistance to eligible small disadvantaged businesses seeking to compete in the American economy. SBA's challenge has been to ensure that 8(a) guidance, controls, and practices truly prepare participating firms for a competitive market. In the past, SBA had not placed adequate emphasis on business development to enhance the ability of 8(a) firms to compete and did not adequately ensure that only 8(a) firms with economically disadvantaged owners in need of business development remained in the program.

SBA continues to address issues that hinder its ability to deliver an effective 8(a) Program. For example, SBA has made its assistance more readily available to program participants by using resource partners such as small business development centers. SBA has also taken steps to ensure business opportunity specialists assess program participants' business development needs during site visits. SBA also revised its regulations, effective March 2011, to ensure that companies deemed "business successes" graduate from the program, rather than allowing them to remain in the program and receive 8(a) contracts, which caused fewer companies to receive the majority of 8(a) contract dollars and many to receive none. These regulations also establish additional standards to address the definition of "economic disadvantage."

However, for the third consecutive year, SBA has not finalized its 8(a) Program SOP to reflect the March 2011 regulatory changes. In October 2015, SBA submitted the SOP through its internal clearance process. Further, although the March 2011 regulations establish the threshold for "economic disadvantage," we have concerns that SBA's standards for determining economic disadvantage are not justified or objective because they are not based on economic analysis. Agency officials stated that the rule-making process served as an adequate proxy to objectively and reasonably determine effective measures for economic disadvantage, and were not aware of any reliable sources of data to determine economic disadvantage. However, we continue to maintain that SBA's standards for determining economic disadvantage are not justified or objective based on the absence of an economic analysis. Finally, monitoring efforts have made limited progress. For example, although SBA awarded a \$1.9 million contract in December 2011 to develop and deploy a new IT system to assist in monitoring 8(a) Program participants, in 2014, SBA decided not to deploy this new system. Instead, SBA is now attempting to develop and implement another IT system.

Number of Actions Accomplished (Green Status) During Last Four Fiscal Years (Challenge first reported in FY 2003)	2011: 0	2012: 0	2013: 0	2014: 0
Recommended Actions for FY 2016				Status at end of FY 2015
1. Develop and implement a plan, including SOP provisions, which ensures that the 8(a) Business Development Program identifies and addresses program participants' business development needs on an individualized basis.				Orange
2. Update and issue the 8(a) Business Development SOP to reflect the March 2011 regulatory changes.				Orange
3. Establish objective and reasonable criteria that effectively measure "economic disadvantage," and implement the new criteria.				Red

 -Implemented
  -Substantial Progress
  -Limited Progress
  -No Progress





Challenge 6. Effective Tracking and Enforcement Would Reduce Financial Losses from Loan Agent Fraud

For years, OIG investigations have revealed a pattern of fraud by loan packagers and other for-fee agents in the 7(a) Loan Program, involving hundreds of millions of dollars. Since 2005, SBA OIG has investigated at least 22 cases with confirmed loan agent fraud totaling at least \$335 million. Further, OIG has determined that loan agents were involved in approximately 15 percent of all 7(a) loans and resulted in increased risk of default. Yet SBA's oversight of loan agents has been limited, putting taxpayer dollars at risk. Prior OIG audits and investigations have identified that SBA does not have a way to effectively identify and track loan agent involvement in 7(a) portfolios, does not adequately list suspended loan agents to prevent their involvement in the program, and may have outdated enforcement regulations. As loan agent involvement in the 7(a) Program continues to increase, it will become all the more important for SBA to have oversight tools in place to identify and track loan agent involvement in this sizeable program.

In response to this challenge, SBA has made gradual progress. First, to track loan agent activity, SBA eventually decided to have lenders fax a loan agent disclosure form (Form 159) to SBA's fiscal and transfer agent (FTA) and require the FTA to enter the data into a database accessible to SBA. SBA also began linking Form 159 information with its loan data. However, as a recent OIG report identified significant issues in the data quality on the Form 159 information, SBA will likely need to make further modifications to this process. For example, the FTA is testing an automated Form 159. Additionally, in response to OIG concerns that SBA loan agent enforcement regulations are outdated, SBA drafted revised regulations, which the Office of Management and Budget is reviewing.

Lenders need to ensure that agents involved with their loans have not been subject to enforcement action by SBA. SBA now lists the names of loan agents and others named in SBA enforcement actions on its website, and updated an SOP in FY 2014 to instruct lenders to consult this list to avoid problematic loan agents. However, SBA also needs to develop a system to assign a unique identifier to loan agents that participate in the 7(a) Program. Otherwise, suspended agents could circumvent SBA by simply changing their name and continuing participating in the program. In response to our loan agents report, SBA stated it will explore the feasibility of implementing a registration system (Report 15-16).

Number of Actions Accomplished (Green Status) During Last Four Fiscal Years (Challenge first reported in FY 2000)	2011: 0	2012: 1	2013: 0	2014: 0
Recommended Actions for FY 2016				Status at end of FY 2015
1. Develop an effective method of disclosing and tracking loan agent involvement in SBA business loan programs.				Yellow
2. Update regulations (13 CFR Part 103) regarding loan agents to provide effective enforcement procedures.				Yellow ↑
3. Issue guidance that lenders must (1) review SBA's webpage list of loan agents that have been subject to an enforcement action and (2) refrain from doing business with any agent appearing on the list during the time that an agent is suspended or revoked from the 7(a) Program.				Green ↑
4. Implement a loan agent registration system, including the issuance of a unique identifying number for each agent.				Orange

 -Implemented
  -Substantial Progress
  -Limited Progress
  -No Progress

Challenge 7. SBA Needs to Modernize its Loan Accounting System and Migrate it Off the Mainframe

The Loan Accounting System is the core system of record used to account for SBA's \$115 billion loan portfolio. In November 2005, SBA initiated the loan management accounting system (LMAS) project, intended to update and modernize the old system and migrate it off the mainframe. Since 2010, the LMAS modernization effort has been structured into multiple components, or incremental improvement projects (IIPs).

SBA successfully migrated its Loan Accounting System off its legacy mainframe in January 2015, thereby ending SBA's reliance on the proprietary mainframe platform. The most recent transition to production planning IIP included testing the new system and migrating code and financial data to the new production environment. This project was critical to SBA's overall effort to move off the proprietary mainframe. Our most recent review found that SBA's multiple tests—including system, integration, performance, and user acceptance tests—successfully ensured that the new system operated correctly. We also found that SBA completed nearly all outstanding recommendations related to the recommended actions below.

While SBA has successfully closed out the LMAS project, we have observed that the Agency needs to complete additional, complex IT projects timely and successfully. This effort may pose a challenge for the Agency because SBA does not have experienced IT program managers and also lacks continuity within the Office of the Chief Information Officer. Consequently, it will be difficult for the Agency to consistently ensure that its IT investments yield the intended results. As a result, OIG will continue to evaluate whether SBA's capital investment controls adhere to system development methodologies and criteria.

Number of Actions Accomplished (Green Status) During Last Four Fiscal Years (Challenge first reported in FY 2010)	2011: 0	2012: 0	2013: 0	2014: 0
Recommended Actions for FY 2016				Status at end of FY 2015
1. Migrate LMAS to a new operating platform before the current mainframe contract expires in 2015..				Green ↑
2. Modify the LMAS quality assurance/independent verification and validation (IV&V) contract and establish an effective quality assurance (QA) process which provides senior management independent assurance that LMAS development activities and related project deliverables meet SBA quality standards.				Green ↑
3. Establish a process for reviewing and accepting LMAS deliverables that complies with quality assurance and systems development methodology requirements. This includes hiring or fully staffing an IV&V entity to validate deliverable acceptance.				Green ↑
4. Implement a quality assurance process in LMAS in accordance with SBA's Enterprise QA Plan.				Green ↑

 -Implemented
  -Substantial Progress
  -Limited Progress
  -No Progress

Challenge 8. SBA Needs to Accurately Report, Significantly Reduce, and Strengthen Efforts to Recover Improper Payments in the 7(a) Loan Program

Previous OIG audits have determined that SBA has significantly understated its improper payment rates for 7(a) loan approvals and purchases because it did not adequately review loans, used flawed sampling methodologies, and did not accurately project review findings. In FY 2011, SBA reported a 1.73 percent improper payment rate for 7(a) purchases, or \$40.7 million, when the rate could have been as high as 20 percent, or about \$472 million. Similarly, even though SBA in FY 2011 reported no improper payments for 7(a) loan approvals, an OIG audit estimated that at least 1,196 Recovery Act 7(a) loans were not originated and closed in compliance with SBA requirements, resulting in at least \$869.5 million in inappropriate or unsupported loan approvals.

Recent OIG audits have also identified 7(a) loans that were ineligible, lacked repayment ability, or were not properly closed. In 2012, we reported that the limited reviews of lender underwriting performed during guaranty purchase reviews were contrary to SBA procedures, resulting in improper payments. We also reported that high-dollar, early-defaulted loans were not reviewed with the scrutiny required to identify improper payments. In 2014, we reported that six SBA-approved loans with material underwriting deficiencies defaulted, resulting in \$4.8 million in unnecessary losses. In 2015, we reported another \$1.8 million in recommended recoveries on purchased 7(a) loans. Additionally, we reported that due to a change in testing procedures, SBA missed identifying improper payments and, consequently, its FY 2014 reported improper payment rate for 7(a) purchases was understated.

The Office of Capital Access (OCA) has taken actions to accurately report and reduce improper payments in SBA's 7(a) Loan Program. OCA has (1) formalized its improper payment sampling, (2) demonstrated that its review process is effective for 7(a) loan approvals, (3) formalized its process to review disputed cases, (4) formalized the recovery process and time standards for 7(a) purchases, (5) developed appropriate corrective action plans for 7(a) loans, (6) established repayment ability review requirements that are effective at identifying improper payments, (7) revised improper payment review checklists, and (8) demonstrated recovery from lenders in a timely manner during FY 2015. However, OCA still needs to demonstrate that its process over disputed cases ensures adequate and timely resolution.

Number of Actions Accomplished (Green Status) During Last Four Fiscal Years (Challenge first reported in FY 2001)	2011: 0	2012: 0	2013 7(a) Approvals:1 7(a) Purchases: 0	2014 7(a) Approvals:1 7(a) Purchases:1
Recommended Actions for FY 2016	Status at end of FY 2015			
	7(a) Approvals		7(a) Purchases	
1. Reassign responsibility for final approval of disputed denial, repair, and improper payment decisions from the Office of Financial Assistance (OFA) to the Office of Credit Risk Management (OCRM) to ensure an adequate and timely resolution of disputes.	N/A		Yellow	
2. Establish a process and time standards to expeditiously recover improper payments identified during Agency reviews and OIG audits.	N/A		Green ↑	
3. Demonstrate that corrective action plans are effective in reducing improper payments in the 7(a) Loan Program.	Yellow		Yellow	





■ -Implemented
 ■ -Substantial Progress
 ■ -Limited Progress
 ■ -No Progress

Challenge 9. Disaster Assistance Must Balance Competing Priorities to Deliver Timely Assistance and Reduce Improper Payments

SBA's disaster loans are vulnerable to fraud and losses because (1) loan transactions are often expedited in order to provide quick relief to disaster survivors, (2) lending personnel hired in connection with a disaster declaration may lack sufficient training or experience, and (3) the volume of loan applications may overwhelm SBA's resources and its ability to exercise careful oversight of lending transactions. Both OIG and GAO audits have determined that because SBA had not taken sufficient steps to prepare for large-scale disasters, such as properly preparing and training a new workforce for high application volumes, the program has often been unable to provide timely assistance in the aftermath of major disasters. Even in the wake of disasters like Hurricane Sandy, SBA did not effectively develop and utilize programmatic innovations intended to assist in disbursing funds quickly and effectively. For instance, SBA did not implement three new guaranteed disaster loan programs mandated by Congress in 2008 that would provide expedited disaster loans in partnership with private sector lenders. SBA solicited feedback from lenders on these proposed programs and they objected to the requirements regarding loan terms, interest rates and loan fee limits. Further, the expedited loan processes implemented in response to Hurricane Sandy did not significantly reduce loan approval times.

Additionally, in FY 2014, the default component of the disaster direct loan program subsidy rate was 15 percent, and the program's improper payment rate was 12 percent. While the improper payment rate represents a gradual decrease compared to the past several years, it remains above the 10 percent level required to be in compliance with the Improper Payments Elimination and Recovery Act of 2010 (IPERA). In addition, the Disaster Direct Loan Program exceeds the threshold for significant improper payments defined by IPERA (\$10 million and 2.5 percent of program outlays)—Improper payments were \$70 million of the \$585.6 million in program outlays in FY 2014. To reduce improper payments with disaster loans, SBA's Office of Disaster Assistance (ODA) should strengthen controls related to verification and documentation of loan eligibility, insurance coverage, and other program requirements that have been identified as the most prevalent errors in the program. If properly addressed, SBA can effectively reduce the improper payment rate in future years.

Number of Actions Accomplished (Green Status) During Last Four Fiscal Years (Challenge first reported in FY 2015)	2011: N/A	2012: N/A	2013: N/A	2014: N/A
Recommended Actions for FY 2016				Status at end of FY 2015
1. Implement pilot programs of the new guaranteed disaster programs mandated by Congress.				OCA
				New
2. Demonstrate that the Agency has adequately trained loan processing resources that can be quickly mobilized in the event of the disaster.				ODA
				New
3. Reduce the improper payment rate to 9.5 percent or lower in FY 2016, in accordance with the reduction targets established in the FY 2014 Agency Financial Report.				ODA
				New

 -Implemented
  -Substantial Progress
  -Limited Progress
  -No Progress

Challenge 10: SBA Needs to Effectively Manage Its Acquisition Program

SBA improved its acquisition process by reducing its improper payment rate for contract disbursements, providing training to acquisition personnel, conducting annual advanced strategic acquisition planning, and using the Contract Review Board for making acquisition decisions. However, challenges still exist, including: (1) inadequate acquisition planning, (2) poorly defined requirements, (3) incomplete systems interface, (4) lack of effective controls for interagency acquisition, and (5) an incomplete acquisition SOP.

We identified instances where SBA inadequately planned its requirements for procuring IT products and services. While SBA, for the most part, interfaced the contract management system with the financial system, it has not completed the interface for blanket purchase agreements and indefinite delivery indefinite quantity contracts—potentially exposing an internal control deficiency. SBA also did not comply with Federal regulations when determining whether using interagency acquisitions was the best procurement approach. Further, its acquisition SOP does not include procedures on the use of modular contracting for major system acquisitions, interagency acquisitions, or post-award contract administration requirements.

In July 2014, the Office of the Chief Financial Officer (OCFO) awarded a contract to assess its acquisition function. The assessment was completed in March 2015; however, as of September 2015, OCFO had not implemented a comprehensive improvement plan to address deficiencies identified by the assessment. Until SBA can demonstrate that it has developed and implemented a comprehensive improvement plan to address the control deficiencies within its acquisition function, it will continue to experience challenges.

Number of Actions Accomplished (Green Status) During Last Four Fiscal Years (Challenge first reported in FY 2013)	2011: N/A	2012: N/A (New)	2013: 0	2014: 0
Recommended Actions for FY 2016				Status at end of FY 2015
1. Complete an assessment of the Agency's acquisition activities using OMB's Guidelines for Assessing the Acquisition Function.				Green ↑
2. Create and implement a comprehensive improvement plan—based on the results of the acquisition function assessment—that has measurable goals, objectives, prioritized actions, and timeframes to address deficiencies identified in the organizational alignment and leadership assessment area.				Orange
3. Create and implement a comprehensive improvement plan—based on the results of the acquisition function assessment—that has measurable goals, objectives, prioritized actions, and timeframes to address deficiencies identified in the acquisition policies and processes assessment area (i.e. acquisition management SOP).				Orange
4. Create and implement a comprehensive improvement plan—based on the results of the acquisition function assessment—that has measurable goals, objectives, prioritized actions, and timeframes to address deficiencies identified in the acquisition workforce assessment area.				Orange
5. Create and implement a comprehensive improvement plan—based on the results of the acquisition function assessment—that has measurable goals, objectives, prioritized actions, and timeframes to address deficiencies identified in the knowledge management and information systems assessment area.				Orange

 -Implemented
  -Substantial Progress
  -Limited Progress
  -No Progress

SUMMARY OF FINANCIAL STATEMENT AUDIT AND MANAGEMENT ASSURANCES

As required by OMB Circular A-136, Section II.5.7, the following summarizes SBA's Financial Statement Audit and Management Assurances:

SUMMARY OF FINANCIAL STATEMENT AUDIT

Audit Opinion	Unmodified					
Restatement	No					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
None	0	0	N/A	N/A	N/A	0

SUMMARY OF MANAGEMENT ASSURANCES

Effectiveness of Internal Control over Financial Reporting (FMFIA § 2)						
Statement of Assurance		Unqualified				
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
None	0	0	N/A	N/A	N/A	0
Effectiveness of Internal Control over Operations (FMFIA § 2)						
Statement of Assurance		Unqualified				
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
None	0	0	N/A	N/A	N/A	0
Conformance with Financial Management System Requirements (FMFIA § 4)						
Statement of Assurance		Systems conform to financial management system requirements.				
Non-Conformances	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
None	0	0	N/A	N/A	N/A	0
Conformance with Federal Financial Management Improvement Act (FFMIA)						
		Agency		Auditor		
1. System Requirements		No lack of substantial compliance noted		No lack of substantial compliance noted		
2. Accounting Standards		No lack of substantial compliance noted		No lack of substantial compliance noted		
3. USSGL at Transaction Level		No lack of substantial compliance noted		No lack of substantial compliance noted		

IMPROPER PAYMENTS

As required by the Improper Payment Information Act of 2002 (IPIA), its amendments, and OMB Circular No. 123, Appendix C, *Management's Responsibility for Internal Control: Requirements for Effective Estimation and Remediation of Improper Payments*, the SBA reviews programs identified as susceptible to improper payments.

Improper payment reviews are a multi-layered process that starts with a risk assessment. If an assessment indicates a program is susceptible to improper payments, then testing is performed using a statistically valid sampling technique. Based upon the testing results, a corrective action plan is determined for the types of errors uncovered. If a significant amount of recoverable dollars is found, the SBA considers the appropriateness of performing a recapture audit.

The Disaster Relief Appropriations Act, 2013 provided funding for disaster relief in response to Hurricane Sandy to certain agencies including the SBA. Agencies were required to ensure the funds were used for their intended purpose. The Act deemed all Hurricane Sandy funds as susceptible to significant improper payments and, regardless of risk assessment results, mandated that agencies report an improper payment estimate for the funds. The SBA received Hurricane Sandy Disaster Relief (HSDR) funds for the Disaster Direct loan program, including the administrative expenses related to the program, and certain grant programs. Improper payment assessments of those relevant grant programs and payments to federal employees did not determine them to be susceptible to improper payments; however, the SBA conducted improper payment reviews and is reporting the results to comply with the Disaster Relief Appropriations Act, 2013.

The SBA reviewed nine programs and activities for improper payments – three major credit programs as mandated by OMB, disbursements for goods and services, and Hurricane Sandy Disaster Relief (HSDR) funds for grants, payroll, travel, and purchase cards. The three major credit programs are:

- 7(a) business loan program that includes guaranty purchases and guaranty approvals;
- 504 certified development company loan guaranty approvals; and
- Disaster direct loan disbursements.

A fourth major credit program, the Small Business Investment Company (SBIC) program, retains approval from

OMB for relief from reporting due to the low occurrence of improper payments determined by several years' review and low probability for improper payments.

The next sections discuss SBA efforts and results related to improper payment assessments and reviews.

Part I - Risk Assessments

OMB Circular No. A-123, Appendix C requires risk assessments at least once every three years for programs not deemed risk susceptible or if a program was subjected to a significant change in legislation or funding level. The SBA last conducted risk assessments for all programs and activities, including payments made to employees, for susceptibility to improper payments in FY 2014. The risk assessments did not identify any additional programs as susceptible to improper payments. Since no significant changes occurred to any SBA program or activity during FY 2015, the SBA did not conduct any new risk assessments.

Parts II and V - Statistical Sampling and Corrective Actions

To provide more clarity for the reader, this section is organized by the nine programs subjected to review for improper payments and provides statistical sampling information coupled with corrective actions where applicable.

7(A) LOAN GUARANTY PURCHASES

Statistical Sampling

Using Probability Proportional to Size (PPS) sampling with replacement, the 7(a) purchase sample cases were chosen from all purchases approved during the 12 month period ending March 31, 2015. The purchase population was divided into four strata based on the following factors: which of three servicing offices processed the purchase and if the loan was considered an early default, regardless of servicing office. Using the PPS approach, the SBA determined the appropriate total sample size to be 261 loans from the population. The sample included aggregate purchase outlays of \$148,317,727 and an absolute value of improper payments of \$1,785,487 within the sample. Using the Hansen-Hurwitz estimation method, the estimated improper payment rate for the 7(a) guaranty purchase population is .90 percent.

The 7(a) loan guaranty purchase reviews were conducted to examine if the lender complied materially with the 7(a) loan program origination requirements including statutory provisions, SBA regulations, any agreement the lender executed with the SBA, standard operating procedures, loan authorizations, and official SBA notices and forms applicable to the 7(a) loan program. The purchase reviews were to determine if the lender (1) originated, serviced, and liquidated the loan in a prudent and commercially reasonable manner; (2) misrepresented or failed to disclose a material fact to the SBA; and/or (3) put SBA's financial interest at risk.

Corrective Action

The improper payment rate of 0.90 percent and \$7.91 million does not exceed the 1.5 percent and \$10 million threshold for reporting a corrective action.

7(A) LOAN GUARANTY APPROVALS

Statistical Sampling

Using PPS sampling with replacement, the 7(a) approval sample cases were chosen from all loan guaranties approved during the 12 month period ending March 31, 2015. The loan guaranties were approved through SBA's loan processing centers, consisting of the 7(a) Loan Guaranty Processing Center with dual locations in Sacramento, California and Hazard, Kentucky. The approval population was divided into two strata based on whether the loan was SBAExpress or not. The SBA determined the appropriate total sample size to be 141 loans from the population. The sample included net guaranteed approvals of \$162,199,500 and improper payments of \$6,217,068 within the sample. Using the Hansen-Hurwitz estimation method, the estimated improper payments rate was calculated as 5.59 percent.

The 7(a) loan guaranty approval reviews were conducted to examine if the lender complied materially with the 7(a) loan program origination requirements including statutory provisions, SBA regulations, any agreement the lender executed with the SBA, standard operating procedures, loan authorizations, and official SBA notices and forms applicable to the 7(a) loan program. The approval reviews were to determine if the lender (1) originated the loan in a prudent and commercially reasonable manner; (2) misrepresented or failed to disclose a material fact to the SBA; and/or (3) put SBA's financial interest at risk.

Corrective Action

In FY 2015, the most prevalent root cause for 7(a) loan approval improper payments stemmed from administrative or process errors made by the participating lender at origination. Improper payments generally arose when the participating lender failed to comply with loan program requirements. The primary reasons for 7(a) approval errors in FY 2015 included:

- ineligible loan structures;
- lack of repayment ability; and
- improper determination of eligibility by lenders or SBA loan officers.

As a means to reduce and/or eliminate the occurrence of future improper payments, a Corrective Action Plan has been formalized for the 7(a) loan guaranty approval centers. Specific corrective actions are determined based upon the primary reason for the error with the purpose of both remedying the error and ensuring the error does not occur in the future. Plans for improvement include:

- revise and issue updated SOP 50 10 5(G) and ensure clear guidance is provided as it relates to the 7(a) guaranty purchase process;
- the Office of Financial Program Operations will collaborate with the Office of Credit Risk Management to ensure specific lender deficiencies are monitored and incorporated into risk based reviews;
- external training for lenders to avoid ineligible loan structures, ensure proper use of loan proceeds, and accurately determine loan eligibility; and
- internal training for loan approvers to ensure appropriate documentation is obtained and analyzed prior to loan approval.

The aforementioned corrective actions to ensure errors do not continue to occur are currently underway. Revisions to the SOP are anticipated to be completed by the end of FY 2016. The Office of Financial Program Operations (OFPO) shared the loan level and lender deficiencies with the Office of Credit Risk Management (OCRM) in August 2015, and will continue its efforts to ensure lender deficiencies are monitored and incorporated into lender's Risk Based Reviews. External and internal training will be provided by the end of the second quarter of FY 2016.

Corrective actions are tracked at the loan level through a centralized database. The Quality Control Specialist for 7(a) loan guaranty approvals monitors errors from identification through completion of the corrective action. Headquarters management provides oversight to ensure milestones are met. All improper payments identified as a result of the FY 2015 IPERIA reviews have been recaptured through obtaining additional documentation, loan modification, or cancellation of the loan guaranty. Corrective actions were generally completed at the loan level within 60 days with all actions taken by the end of the fiscal year.

504 CDC LOAN GUARANTY APPROVALS

Statistical Sampling

Using PPS sampling with replacement, the 504 CDC loan approval sample cases were chosen from all loan guaranties approved during the 12-month period ending March 31, 2015. The loan guaranties were approved at SBA's Sacramento Loan Processing Center and closed at various SBA district offices, with servicing subsequently handled by the Fresno, California Commercial Loan Servicing Center and the Little Rock, Arkansas Commercial Loan Servicing Center. The approval population was not stratified. The SBA determined the appropriate total sample size to be 192 loans from the population. The sample included net approval outlays of \$294,277,000 and improper payments of \$16,663,014 within the sample. Using the Hansen-Hurwitz estimation method, the estimated improper payments rate was calculated as 3.78 percent.

The 504 CDC loan approval reviews were conducted to examine if the lender complied materially with the program's origination requirements including statutory provisions, SBA regulations, any agreement the CDC executed with the SBA, standard operating procedures, loan authorizations, and official SBA notices and forms applicable to the 504 CDC loan program. The reviews were to determine if the CDC (1) originated the loan in a prudent and commercially reasonable manner; (2) misrepresented or failed to disclose a material fact to the SBA; and/or (3) put SBA's financial interest at risk.

Corrective Action

In FY 2015, the most prevalent root cause for 504 approval improper payments stemmed from administrative or process errors made by the participating lender at origination and the CDC's failure to verify eligibility data. Improper payments generally arose when the participating

lender failed to comply with loan program requirement. The primary reasons for 504 approval errors in FY 2015 included:

- lack of substantiating financial documents; and
- inadequate affiliate and size standard analysis.

As a means to reduce and/or eliminate the occurrence of future improper payments, a Corrective Action Plan has been formalized for the 504 loan approval center. Specific corrective actions are determined based upon the primary reason for the error with the purpose of both remedying the immediate error and ensuring the error does not occur in the future. Plans to ensure reduction targets are met include:

- the Office of Financial Program Operations will collaborate with the Office of Credit Risk Management (OCRM) to ensure specific lender deficiencies are monitored and incorporated into risk based reviews;
- external training for CDCs focusing on substantiating financial documents including analysis, affiliate and size standard analysis, and accurately determining loan eligibility;
- internal training for loan approvers focusing on calculating a borrower's repayment ability, and affiliate and size standard analysis; and
- enhanced internal quality control reviews to test 504 pre-closing servicing actions.

The aforementioned corrective actions to ensure errors do not continue to occur are currently underway. OFPO shared the loan level and lender deficiencies with OCRM in August 2015, and will continue its efforts to ensure lender deficiencies are monitored and incorporated into lender's Risk Based Reviews. External and internal training will be provided by the end of the second quarter of FY 2016. The Quality Control program has designed the review process for 504 pre-closing servicing actions, and anticipates incorporating such reviews by the end of the second quarter in FY 2016.

Corrective actions are tracked at the loan level through a centralized database. The Quality Control Specialist for 504 loan guaranty approvals monitors errors from identification through completion of the corrective action. Headquarters management provides oversight to ensure milestones are met. All improper payments identified as a result of the FY 2015 IPERIA reviews have been recaptured through obtaining additional documentation or through a loan modification. Corrective actions were generally completed at the loan level within 60 days with all actions taken by the end of the fiscal year.

DISASTER DIRECT LOAN PROGRAM

Statistical Sampling

The Office of Disaster Assistance performs a Quality Assurance Review (QAR) of the approved loan portfolio annually. A part of the QAR is to identify any deficiency that would result in an improper payment. The statistical methodology used follow widely accepted practices and was approved by the Office of Management and Budget. The review population consisted of disaster loan disbursements, including HSDR funds, made during the 12-month period ending June 30, 2015 with total disbursements of \$302,288,000. A sample of 500 payments was selected for which testing yielded a weighted estimated improper payment rate of 8.13 percent. Based on the sample results, the estimated amount of improper payments was \$24,575,000. This represents a substantial reduction in the improper payment rate and dollars over the last fiscal year which reported a rate of 12 percent and \$70 million.

The scope of ODA's review covers three primary compliance areas: (1) basic eligibility; (2) adherence to relevant laws, rules, regulations, and standard operating procedures; and (3) credit worthiness.

Corrective Action

In FY 2015, the most prevalent root cause for Disaster Direct loan program improper payments stemmed from administrative and documentation errors. The loan processing and disbursement staff did not consistently follow the guidance provided in the SOP and policy memos. Specifically, errors arose when:

- proper dates and type of insurance coverage, which accounts for approximately 71 percent of all improper payments in this program, were not confirmed;
- disbursements were made to parties that were ineligible for disaster loan assistance; and
- underpayments that incorrectly lowered borrowers' loan amount eligibility.

As a result, ODA plans to continue the following corrective actions:

- Intense training on the various types of insurance coverage will be conducted for the disbursement staff (case managers and attorneys) at the Processing and Disbursement Center in Fort Worth, Texas.

The training will be completed by the end of FY 2016 first quarter, December 31, 2015.

- Secondary reviews of specified (based on dollar amount) disbursements to ensure the proper insurance coverage is in effect. The second review is currently ongoing and will be performed on every specified dollar amount disbursement

DISBURSEMENTS FOR GOODS AND SERVICES

Statistical Sampling

Disbursements for goods and services samples were chosen using PPS with replacement methodology from payments completed during the 12 months ending March 31, 2015. The total number of disbursements was 3,255, and the total dollar amount was \$105,444,360. The SBA determined the appropriate sample size to be 214 unique invoices having total outlays of \$54,201,465. Based upon the sample results, the estimated improper payment rate exceeded the estimated rate used in the sampling methodology and therefore an additional of 91 unique invoices totaling \$8,982,495 were sampled. Based upon both sample results, the estimated FY 2015 disbursements for goods and services improper payment rate is 13.52 percent for an estimated total of \$14,260,252. This was a significant increase from last year's estimated improper payment rate for disbursements for good and services of 8.46 percent and a slight increase from FY 2013 rate of 11.6 percent.

The scope of the review covered three areas: invoice accuracy, compliance with contract terms, and accuracy of invoice processing.

Corrective Action

In FY 2015, the root cause of the improper payments was administrative and documentation errors. All payments corresponded to valid goods and services received. The types of errors included:

- lack of review of contract documents prior to issuance;
- inadequate comparison of the invoice to the contract to verify period of performance, terms, or labor rates and categories to ensure they agree; and
- payment accuracy issues where the financial system was not updated at the time of payment with current vendor payment information from the System for Award Management (SAM).

To prevent the administrative and documentation errors noted in the improper payment review, the SBA will complete the following corrective actions:

- develop an internal review process on contracts based on Federal Acquisition Regulations by January 29, 2016;
- provide training to all contracting staff on reviewing and approving invoices by January 31, 2016; and
- install patches for the interface between the financial system and SAM by January 31, 2016; continue manual procedures until the interface between the financial system and SAM is developed

HURRICANE SANDY DISASTER RELIEF GRANTS

Statistical Sampling

Hurricane Sandy Disaster Relief (HSDR) grant population for disbursements completed during the 12 months ending March 31, 2015 consisted of 43 disbursements for the total dollar amount of \$4,267,246.63. In FY 2014 samples were chosen using PPS with replacement methodology; however, after assessing the cost of a statistician's services to select a sample in FY 2014 and evaluating the small volume of disbursements, it was determined that it was not cost effective to contract with a statistician to select a sample. For this reason, 100 percent of the HSDR grant disbursements were reviewed for improper payments. The 100 percent test of disbursements will continue in future years until the funds are fully expended. Based upon the test results, the estimated FY 2015 improper payment rate was 3 percent for a total of \$130,050.76.

Corrective Action

The improper payment rate of 3.02 percent and \$130,050.76 exceeds the 1.5 percent but does not exceed \$10 million threshold for reporting a corrective action plan.

HURRICANE SANDY DISASTER RELIEF ADMINISTRATIVE EXPENSES – PAYROLL

Statistical Sampling

Hurricane Sandy Disaster Relief payroll administrative expense samples were chosen using PPS with replacement methodology from payments completed during the 12 months ending February 28, 2014. The administrative expenses were inadvertently not reported in FY 2014 so expenses from March 1, 2013 to February 28, 2014 are being reported in FY 2015; subsequent HSDR administra-

tive expenses will be reported in future years. The total dollar amount expended was \$136,739,099. The SBA determined the appropriate sample size to be 119 line items having total outlays of \$704,982.43. Based upon the sample results, the estimated FY2015 improper payment rate was .30 percent for a total of \$407,630.

Corrective Action

The improper payment rate of .30 percent and \$407,630 does not exceed the 1.5 percent and \$10 million threshold for reporting a corrective action plan.

HURRICANE SANDY DISASTER RELIEF ADMINISTRATIVE EXPENSES – TRAVEL

Statistical Sampling

Hurricane Sandy Disaster Relief travel administrative expense samples were chosen using PPS with replacement methodology from payments completed during the 12 months ending February 28, 2014. The administrative expenses were inadvertently not reported in FY 2014 so expenses from March 1, 2013 to February 28, 2014 are being reported in FY 2015; subsequent HSDR administrative expenses will be reported in future years. The travel population was divided into three strata based on the following factors: reimbursements to employees for travel; payments associated with centrally billed accounts; and travel related relocation expenses. There were 7,278 expenditures with a total dollar amount of \$10,115,680. Using the PPS approach, the SBA determined the appropriate sample size to be 145 disbursements. Based upon the sample results, the estimated FY2015 improper payment rate was 0.12 percent for a total of \$12,065.

Corrective Action

The improper payment rate of 0.12 percent and \$12,065 does not exceed the 1.5 percent and \$10 million threshold for reporting a corrective action plan.

HURRICANE SANDY DISASTER RELIEF ADMINISTRATIVE EXPENSES – PURCHASE CARDS

Statistical Sampling

There were 690 Hurricane Sandy Disaster Relief purchase card administrative expense payments during the 12 months ending February 28, 2014 that totaled \$514,813.55. The administrative expenses were inadvertently not reported in FY 2014 so expenses from March 1, 2013 to February 28, 2014 are being reported in FY 2015; subsequent HSDR

administrative expenses will be reported in future years. After assessing the cost of a statistician's services to select a sample and evaluating the small volume of disbursements, it was determined that it was not cost effective to contract with a statistician to select a sample. For this reason, 100 percent of the HSDR purchase card disbursements were tested for improper payments. The 100 percent test of disbursements will continue in future years until the funds are fully expended. Based upon the test results, the estimated FY 2015 improper payment rate was 1 percent for a total of \$5,171.59.

Corrective Action

The improper payment rate of 1 percent and \$5,171.59 does not exceed the 1.5 percent and \$10 million threshold for reporting a corrective action plan.

Part III - Improper Payment Reporting

Table 1 presents a summary of SBA's improper payment review results and reduction outlook.

Program	FY 2014			FY 2015					FY 2016			FY 2017			FY 2018		
	Outlays ¹ \$	IP %	IP \$	Outlays ¹ \$	IP %	IP \$	Over-paid \$	Under-paid \$	Outlays ¹ \$ Est.	IP % ⁵	IP \$	Outlays ¹ \$ Est.	IP % ⁵	IP \$	Outlays ¹ \$ Est.	IP % ⁵	IP \$
7(a) Guaranty Purchases ^{1,3,5}	858.6	1.75	15.0	880.16	0.9	7.91	4.05	3.86	900.00	1.00	9.00	925.00	1.00	9.20	950.00	1.00	9.50
7(a) Guaranty Approvals ^{1,2}	11,741.1	5.15	605.0	15,160.48	5.59	848.08	848.08	0.00	15,240.00	4.75	723.90	15,500.00	4.65	720.75	15,750.00	4.55	716.63
504 CDC Guaranty Approvals	4,571.5	1.09	49.9	4,189.53	3.78	158.20	158.20	0.00	4,200.00	3.50	147.00	4,250.00	3.40	144.50	4,300.00	3.30	141.90
Disaster Loan Disbursements ¹	585.6	12.00	70.2	302.28	8.13	24.57	24.49	0.08	600.00	7.29	43.74	600.00	6.56	39.27	600.00	5.90	35.42
Disbursements for Goods and Services	92.6	8.46	7.8	105.44	13.52	14.26	14.26	0.00	115.00	13.00	11.30	115.00	12.50	10.87	115.00	12.00	10.43
Hurricane Sandy Disaster Relief Grants	5.5	3.00	0.17	4.3	3.02	0.13	0.13	0.00	5.60	2.00	0.11	0.00	N/A	N/A	0.00	N/A	N/A
Hurricane Sandy Disaster Relief Administrative Funds - Payroll ⁴	N/A	N/A	N/A	136.74	0.30	0.41	0.28	0.13	26.99	0.20	0.01	0.00	N/A	N/A	0.00	N/A	N/A
Hurricane Sandy Disaster Relief Administrative Funds - Travel ⁴	N/A	N/A	N/A	10.12	0.12	0.012	0.009	0.003	0.27	0.10	0.00	0.00	N/A	N/A	0.00	N/A	N/A
Hurricane Sandy Disaster Relief Administrative Funds - Purchase Cards ⁴	N/A	N/A	N/A	0.51	1.00	0.005	0.005	0.00	0.15	0.80	0.01	0.00	N/A	N/A	0.00	N/A	N/A
Total ^{6,7}	17,854.9	4.19	748.07	20,789.56	5.07	1,053.58	1,049.50	4.07	21,088.01	4.43	935.07	21,390.00	4.32	924.59	21,715.00	4.21	913.88

1 Outlays in this report represent the base amount of the program activity related to SBA improper payments; and this amount will differ from the amount reported as outlays in SBA's President's Budget submissions because they include reestimates of subsidy cost, reimbursements to SBA administrative funds and other costs. Outlays for 7(a) Guaranty Purchases are the amount of disbursements for the purchase of defaulted guarantied loans. Outlays for 7(a) Guaranty Approvals are the amount of new guaranty approvals by banks and other SBA lending partners. Outlays for 504 CDC Loans Guarantied are approvals irrespective of disbursement, net of approval increases, decreases, reinstatements and cancellations for the current year. Outlay figures for Disaster are loan disbursements on current year approvals.

2 For 7(a) Guaranty Approvals, amounts reported are based on the guarantied amount only.

3 Improper payment rate of 1.33 percent in the amount of \$11.4 reported in FY 2014; however an additional improper payment was identified and the rate was adjusted to 1.75 percent and \$15.0 million.

4 Data reported is for period March 1, 2013 through February 28, 2014 due to inadvertent lack of reporting in FY 2014.

5 Improper payment rate for 7(a) Guaranty Purchase is being projected as 1.0 percent for FY 2016 - FY 2018. As new loan products and processes are released a minimal impact is anticipated; however, the improper payment rate is anticipated to remain at 1 percent. This is an acceptable level to the Agency.

6 Total improper payment estimates and improper payment percentages do not represent a true statistical estimate for the Agency.

7 Total does not include Hurricane Sandy Disaster Relief Indirect Expenses of \$9.5 million; SBA recorded funds with 'regular' indirect administrative Disaster program funds as was allowed by appropriation law. Improper payments for Hurricane Sandy Disaster Relief direct funds for administrative expenses of payroll, travel and purchase cards were reported above.

Part IV - Improper Payment Root Cause Categories

Table 2 presents a summary of the root causes of SBA's improper payments.

Reason for Improper Payment		7(a) Guaranty Purchases		7(a) Guaranty Approvals		504 CDC Guaranty Approvals		Disaster Direct Loan Disbursements		Disbursements for Good and Services		Hurricane Sandy Disaster Relief Grants		HSDR Administrative Expense - Payroll		HSDR Administrative Expense - Travel		HSDR Administrative Expense - Purchase Card	
		Over payment	Under payment	Over payment	Under payment	Over payment	Under payment	Over payment	Under payment	Over payment	Under payment	Over payment	Under payment	Over payment	Under payment	Over payment	Under payment	Over payment	Under payment
Program Design or Structural Issue																			
Inability to Authenticate Eligibility								2.99	0.08					0.23					
Failure to Verify:	Death Data																		
	Financial Data																		
	Excluded Party Data																		
	Prisoner Data																		
	Other Eligibility Data ¹			728.09		153.83													
Administrative/ Process Error Made by:	Federal Agency	4.05	3.86	119.99		4.37				14.07		0.13		0.05	0.13	0.009	0.003		
	State or Local Agency																		
	Other party																		
Medical Necessity																			
Insufficient Documentation to Determine										0.19								0.005	
Other Reason ²								21.50											
Total Estimated Improper Payments		4.05	3.86	848.08		158.20		24.49	0.08	14.26		0.13		0.28	0.13	0.009	0.003	0.005	

¹ Documentation provided by delegated lender was not sufficient to establish the eligibility of the loan

² This category consists of lack of documents to support ODA's policies concerning: a) insurance - \$12,714,232; b) contractors compliance - \$1,010,468; c) building permits - \$5,464, 995; d) titling/mortgage issues - \$1,095,502; and e) miscellaneous - \$1,213,486.

Part V – Corrective Actions

To provide more clarity for the reader, the Corrective Actions section was coupled with the statistical sampling information in Part II, organized by the nine programs subjected to review for improper payments.

Part VI – Internal Control Over Payments

The SBA is committed to establishing, maintaining, and monitoring internal controls over improper payments. Reducing improper payments is a top management priority and has been included in management and staff

individual performance goals in recent years. Responsibilities are clearly defined and individuals are held accountable as appropriate for their role in the process. Offices perform periodic risk assessments to identify if adequate mitigating controls exist. As an example, the Administrative Accounting Branch, which processes all payments for the SBA, performed a new risk assessment in FY 2015 to ensure all risks have been identified and controls are in place to mitigate the risk to an acceptable level. Based on the assessment, the Administrative Accounting Branch developed process plans to strengthen internal controls as needed.

Each office has established adequate internal controls to mitigate the risks identified. The processes for all loan programs and contracts with vendors include a compre-

hensive eligibility review which includes such activities as checking Treasury's Do Not Pay portal or other system, (e.g., the Credit Alert Verification Reporting System or CAIVRS), verifying income, confirming small business classification, and in the case of Disaster direct loans, conducting on-site visits to determine the cost of repair or replacement of the damaged property. Other requirements for specific loan programs and specific contracts are also reviewed prior to approval. All disbursements are approved using the "Rule of Two", meaning that two people review and approve the disbursement at the office level; the disbursements are reviewed again in the Administrative Accounting office using the "Rule of Two". Finally, all disbursements are batched and processed through Treasury's Do Not Pay portal at time of payment.

SBA management has established controls throughout both the loan and contracting processes and is responsible for training staff to perform the manual controls effectively and to communicate any change to the programs or controls timely. Due to the different levels of staff knowledge and skills in performing controls, the 7(a) Guaranty Approval, 7(a) Guaranty Purchase, 504 CDC Guaranty Approval, and the Disaster loan centers have established robust Quality Control (QC) programs to monitor the quality of loan approvals, purchases, and disbursements and to provide feedback to management. High risk loans, based on specific characteristics such as dollar value, loan type, and loan delegation, are reviewed prior to any funds being disbursed, or in the case of guaranties, committed to the lender. Reviews are documented in databases which provide timely information to management, such as types of errors, corrective actions taken or planned, and areas that may require additional training. The Acquisition Division will be implementing a review process on contracts in FY 2016.

SBA management believes adequate controls are in place and are generally working effectively; however, it appears that the SBA needs to enhance its documentation procedures to evidence payments are proper. Per the definition provided in OMB Circular A-123, Appendix C, if an agency's review is unable to discern whether a payment was proper as a result of insufficient or lack of documentation, this payment must be considered as an improper payment. Lack of proper and/or accurate documentation

appears to be the predominant reason for most improper payments at the SBA.

Table 3 reflects managements' assessment of internal controls in their respective offices.

Part VII – Accountability

The focus of SBA's Strategic Goal 3 is to build an SBA that meets the needs of today's and tomorrow's small businesses. Strategic Objective 3.1 is designed to strengthen SBA's core programs and operations to ensure that they are high performing, effective, and relevant to the needs of the small business community. SBA's strategic goals are included in annual performance plans for all of its programs as business objectives, which are included in employee performance plans. SBA management monitors accomplishments of these business objectives and takes action when progress toward goal achievement is not on target. Executive and management bonuses are based on the accomplishment of business objectives included in employee annual performance plans. This management process helps assure accountability for improper payment reduction.

TABLE 3 STATUS OF INTERNAL CONTROLS

Internal Control Standards	7(a) Guaranty Approvals	504 CDC Approvals	Disaster Loan Disbursements	Disbursements for Goods and Services
Control Environment	4	4	4	4
Risk Assessment	3	3	2	3
Control Activities	3	3	3	3
Information & Communication	3	3	2	3
Monitoring	4	4	3	3

4 = Sufficient controls are in place to prevent improper payments

3 = Controls are in place to prevent improper payments but there is room for improvement

2 = Minimal controls are in place to prevent improper payments

1 = Controls are not in place to prevent improper payments

Part VIII - Information Systems and Other Infrastructure

7(a) loan guaranty purchases are supported by the Guaranty Purchase Tracking System. It is continually updated to enhance the overall integrity of the purchase process. Resources as they relate to human capital are currently adequate; however, the 7(a) guaranty purchase program would benefit from additional staffing resources.

7(a) loan guaranty approvals and 504 CDC loan guaranty approvals have adequate internal controls and are supported by E-Tran, SBA's electronic loan processing/servicing system. Both the SBA and delegated lenders process applications through the system. Lenders may also handle unilateral servicing actions electronically. The system provides increased efficiency and decreased costs in the loan guaranty origination and servicing processes. Resources as they relate to human capital are currently adequate; however, the 7(a) guaranty approval and 504 guaranty approval programs would benefit from additional staffing resources.

Disaster direct loan program has the information systems and other infrastructure it needs to reduce improper payments to targeted levels. For example, the Office Disaster Assistance (ODA) has an integrated, electronic loan processing system, the Disaster Credit Management System (DCMS), to streamline, enhance and improve the loan-making process. This system supports workflow management, electronic file management and document generation functions. Many of the business rules governing DCMS have been designed to improve the quality assurance process. In fact, the ODA quality assurance team works continually with the DCMS development team to improve the quality assurance process with a goal to minimize future improper payments as much as possible. The Disaster direct loan program has adequate human capital to maintain its internal controls.

Disbursements for goods and services are handled by the Oracle Federal Financial System. PRISM, a contract management system, is used to process SBA's acquisitions. The SBA acquisition and accounts payable teams continue work to improve interfaces between PRISM, the financial system, and external databases such as SAM to streamline the acquisition process from start to finish. The effectiveness of internal controls will need to be enhanced to reduce improper payments; human capital resources are adequate but the Acquisition Division and Office of Chief

Financial Officer would benefit from additional staffing resources.

Part IX - Statutory or Regulatory Barriers

The SBA does not have any statutory or regulatory barriers limiting improvement to its performance on the improper payments initiative.

Part X - Recapture of Improper Payments

On September 15, 2011, the SBA submitted a Payment Recapture Audit Cost-Effective Analysis to the Office of Management and Budget. The analysis discussed the 7(a) Business Loan Guaranty Program, the 504 Certified Development Company Loan Guaranty Program, the Disaster Direct Loan Program, Contracts/Acquisition (now reported as Disbursements for Goods and Services), the Small Business Investment Company Financing Guaranty Program (SBIC), the Surety Bond Guaranty Program, and Grants, which included all grant programs. The analysis described the program, the controls over financial disbursements, and the size of the program and concluded for each program that recapture audits would not be cost effective due to low error rates, complexity of the program, or limited amount of outlays. For the latter three listed programs, assessments in 2014 further supported the lack of cost-effectiveness of recapture audits by identifying that the programs are not susceptible to improper payments.

Agency efforts to recapture improper payments are discussed by program.

7(a) loan guaranty purchase improper payment reviews, quality control reviews, and OMB Circular A-123 Appendix A reviews indicated in FY 2014 that payment recapture audits would be cost effective and a recapture audit was conducted in FY 2015. Similar to the IPERIA reviews, the recapture audit was conducted to determine if the lender and SBA materially complied with the 7(a) loan program's origination, servicing, liquidation, and purchase requirements, and to recapture any funds improperly issued as a result of a lender's or SBA's non-compliance.

Loans were randomly selected on a monthly basis for a 12 month period ending March 31, 2015; samples were determined using the "Random Sample" function in Excel, and were comprised of 10 percent of the previous

month's 7(a) guaranty purchase. A total of 256 loans were reviewed as part of the recapture audit, including aggregate purchase outlays of \$99,478,911. Deficiencies were identified on 65 loans, totaling \$2,084,425. Using a straight line calculation, the deficiencies identified totaled 2.10 percent of the 7(a) guaranty purchase dollars reviewed. The most prevalent root cause of the deficiencies identified was insufficient documentation specifically relating to the reimbursement of lender expenses that were not fully justified. All ineligible funds identified as part of the recapture audit have since been recaptured through additional documentation or lender billing.

The SBA intends to continue performing recapture audits as part of its QC Program in FY 2016; however, due to the improvements seen in the 7(a) guaranty purchase program and its improper payment rate, the audit process and results will not be formally reported in FY 2016.

7(a) loan guaranty approval and 504 CDC loan approval are not subject to payment recapture audits as no payment is made at the time of approval; payment is made only if the lender requests that the SBA honor its guaranty. Improper payments identified through both the annual improper payment and continuous quality control reviews are recovered from the lender through the cancellation of the SBA guaranty, reduction in loan guaranty percentage, or loan modification, as appropriate. This determination is made on a case-by-case basis, which varies substantially depending on the circumstances of the loan approval and lender authority.

Disaster direct loans recapture audits would not be cost effective as improper payments are generally the result of

loan documentation errors and do not result in a disaster victim receiving funds for which they are not eligible. Loan documentation legally obligates the recipient of a disaster loan to pay back the entire loan amount whether or not the loan contains any improper payments. Therefore, improper payments are not recovered upon discovery but realized as the borrower makes each payment on the loan. Further, the majority of loans are collateralized which promotes maximum recovery. The FY 2015 IPERIA review of 500 disbursements identified 63 disbursements in 58 loans as improper payments for a total of \$6,675,951. Pertaining to recovery of the 63 improper payments, 71 percent of the disbursements, or 87 percent of the dollars, were for paperwork issues and are not subject to recovery. Of the remaining payments only one was identified as recoverable in the amount of \$20,000 which, extrapolated out to the population would indicate an overall recoverable amount of \$90,486. The improper payment audit was completed using 4,400 hours of staff time and cost approximately \$185,850. Based on the cost to audit versus the estimated dollars of recovery, it is clear that further expenditures for a separate recovery audit is not cost effective.

Disbursements for goods and services recapture audits would not be cost effective. The improper payment testing required 618 labor hours at a cost of \$40,265. Payments identified during the improper payment review as eligible for recapture totaled \$5,851.09; thus the cost of the review exceeds the return.

Hurricane Sandy Disaster Relief grants would not benefit from a recapture audit. The overpayments identified were

TABLE 4 IMPROPER PAYMENT RECAPTURES WITH AND WITHOUT AUDIT PROGRAMS (\$ IN MILLIONS)

Program or Activity	Overpayments Recaptured through Payment Recapture Audits						Overpayments Recaptured outside of Payment Recapture Audits		
	Loans					Total			
	Amount Identified	Amount Recaptured	CY Recapture Rate	CY + 1 Recapture Rate Target	CY + 2 Recapture Rate Target	Amount Identified	Amount Recaptured	Amount Identified	Amount Recaptured
7(a) Guaranty Purchase ¹	2.08	2.08	100%	100%	100%	2.08	2.08		
Contract IP Review ¹								0.0058	0.0052
TOTAL	2.08	2.08	100%	100%	100%	2.08	2.08	0.0058	0.0052

¹ Period of review is for the 12 month ending 3/31/15

TABLE 5 DISPOSITION OF FUNDS RECAPTURED THROUGH PAYMENT RECAPTURE AUDITS (\$ IN MILLIONS)

Program or Activity	Amount Recovered	Type of Payment	Original Purpose
7(a) Guaranty Purchase	2.08	Loan	2.08
TOTAL	2.08	Loan	2.08

TABLE 6 AGING OF OUTSTANDING OVERPAYMENTS IDENTIFIED IN THE PAYMENT RECAPTURE AUDITS (\$ IN MILLIONS)

Program or Activity	Type of Payment	Amount Outstanding (0 - 6 months)	Amount Outstanding (6 months to 1 year)	Amount Outstanding (over 1 year)	Amount determined to not be collectable
7(a) Guaranty Purchase	Loan	0	0	0	0
TOTAL		0	0	0	0

from administrative errors and these payments are not eligible for recapture.

Overpayments recaptured outside of payment recapture audits for SBA credit programs are applicable only to 7(a) Loan Guaranty Purchases, as payments made within this program area are recoverable from lenders as appropriate. Amounts reported this year for the program were done within an SBA recapture audit. Cash disbursements related to goods and services made for an inaccurate amount or not according to contract terms total \$5,851.09, of which \$5,229.19 has been recaptured.

Part XI – Additional Comments

A significant portion of the 7(a) guaranty approval and 504 guaranty approval programs' improper payments stemmed from documentation errors, including missing or incomplete documents, at the time of loan approval. All documentation errors have been corrected through the receipt of additional information and were included in the annual estimation. An estimation excluding corrected documentation was also performed. A comparison of the two estimation approaches is illustrated below:

IMPACT OF NEW IPERIA REPORTING REQUIREMENTS (\$ REPORTED IN MILLIONS)

Loan Program	FY 2015 Improper Payment Estimation – All Errors		FY 2015 Improper Payment Estimation – Corrected Documentation Errors Excluded	
	Improper Payment Rate	Improper Payment Amount	Improper Payment Rate	Improper Payment Amount
7(a) Guaranty Approval	5.59%	848.08	3.01%	455.66
504 Guaranty Approval	3.78%	158.20	2.73%	114.56

If the corrected documentation errors were excluded from the improper payment estimations, the 7(a) guaranty approval improper payment rate would decrease by more than 2.5 percentage points, with the estimated improper payments decreasing by almost \$400 million; the 504 guaranty approval improper payment rate also decreases by more than 1.0 percentage point, with the estimated improper payment amount decreasing by approximately \$35 million. While the SBA understands that the definition of an improper payment includes loan guaranty commitments, it is important to note that any loan submitted for guaranty purchase must undergo a rigorous review – including an analysis of the guaranty approval – prior to guaranty purchase. In the event a lender fails to materially comply with the SBA's program requirements at any point in the life of the loan, the SBA can deny payment of the guaranty to the lender. As such, it is SBA's position that the estimation excluding the corrected documentation errors reflects a more accurate representation of the improper payment estimations for the 7(a) guaranty approval and 504 guaranty approval programs.

The improper payment rate for disaster direct loans does not indicate such loans were disbursed to disaster victims that were not eligible under the Disaster loan program. The improper payments consisted of 79 disbursements out of the 500 disbursements reviewed. Of the 79 considered to be improper payments, 61 were for “paperwork” issues not eligibility issues. The paperwork issues did not result in a disaster loan borrower receiving any loan funds that

they were not eligible to receive or have any impact on SBA's ability to collect on the disaster loans.

Part XI – Agency Reduction of Improper Payments with the Do Not Pay Initiative

The SBA has implemented the Do Not Pay (DNP) Initiative and subjects its disbursements to comparison against the Death Master File (DMF) and SAM Exclusion Records – Restricted at the time of payment. The comparison between SBA and DNP data is completed on a daily basis using current disbursement data. SBA staff manually review and adjudicate the findings of the data matches, with the majority of matches received from the DMF. The FY 2015 DNP process examined SBA disbursements between October 2014 and August 2015. September 2015 data was not available from DNP at the time of this report. Using the DNP database has not impacted improper payments as evidenced in Table 7. The table also reflects the root cause of the improper payments in the Disaster Direct loan program. The payments classified as improper were the result of refunds on paid-in-full loans paid to deceased borrowers.

The improper payments were not directly caused by a failure to use a DNP database but rather a failure to review internal databases that had identified the borrower as deceased. This brings to light an opportunity to review SBA's internal control for this particular process and evaluate the need for an improvement.

TABLE 7 RESULTS OF THE DO NOT PAY INITIATIVE IN PREVENTING IMPROPER PAYMENTS (\$ IN MILLIONS)

	Number (#) of payts reviewed for possible improper payments	Dollars \$ of payments reviewed for improper payments	Number (#) of payments stopped	Dollars (\$) of payments stopped	Number (#) of improper payments reviewed and not stopped	Dollars (\$) of improper payments reviewed and not stopped
Reviews with the IPERIA specified databases	204,726	\$1,608.45	0	\$0	16	0.004
Reviews with databases not listed in IPERIA	\$0	\$0	0	\$0	0	0

Reason for Improper Payment		Disaster Direct Loans	
		Over Payment	Under Payment
Failure to Verify:	Death Data	0.004	
	Financial Data		
	Excluded Party Data		
	Prisoner Data		
	Other Eligibility Data		

The SBA has incorporated the use of the DNP databases Death Master File (DMF), Debt Check Database, and SAM Exclusion Records - Restricted for eligibility checks in the processing of 7(a) commercial loan program applications at the 7(a) Loan Guaranty Processing Center. This has improved the process for determining eligibility. There are current plans to expand the use of DNP database for eligibility checks to the SBA 504 loan program.

The 7(a) loan guaranty purchase process now requires the SBA to complete a CAIVRS search prior to guaranty purchase. The 7(a) loan guaranty approvals and

504 CDC loan guaranty approval processes also require lenders and the SBA, depending on loan delegation, to review CAIVRS and Debt Check during the loan approval process.

In FY 2016, the SBA will continue to incorporate CAIVRS and Debt Check into its review processes, as well as the Do Not Pay portal, but it does not have the capacity to monitor the impact of funds not issued to a participating lender or CDC.

SUCCESS STORY

2015 National Exporter of the Year
Sawyer Manufacturing Company
Tulsa, Oklahoma



Sawyer Manufacturing Company, a global provider of pipeline and welding equipment with headquarters in Tulsa, Oklahoma, is the *2015 SBA Small Business Exporter of the Year*.

Founded in 1948, Sawyer Manufacturing has grown to a 40-staff firm that exports to more than 50 countries, was recognized as part of Tulsa's "Fast 40," a ranking of the metro area's fastest growing companies, and is an active mentor for other local businesses.

Sawyer's production line is primarily focused on midstream transportation, storage, and the general movement of pipeline materials from production to distribution. Since its founding, the company has been exporting globally to more than 50 countries. In recent years, international business has accounted for nearly 50 percent of the company's total revenue, and the company has added more than 20 overseas distributors in the past four years.

Sawyer's experience in global markets has positioned the company as a mentor for other local businesses interested in global market participation.

The company's achievement is a testament to its export leadership team: Vice President **Dave Hembree**; Operations Manager **Scott Pearson**; Shop Manager **John Moorelock**; and Sales and Marketing Director **Andrew Martins**.

FREEZE THE FOOTPRINT REPORT

Section 3 of the Office of Management and Budget Memorandum (OMB) M-12-12, Promoting Efficient Spending to Support Agency Operations, directs that all Chief Financial Officers Act Executive Branch departments and agencies shall not increase the total square footage of their domestic office and warehouse inventory compared to the FY 2012 baseline. This is referred to as the “Freeze the Footprint” policy.

On an annual basis, an agency shall not increase the size of its domestic real estate inventory, measured in square footage, for space predominately used for offices and warehouses. Progress in meeting the “Freeze the Footprint” policy is based on an annual evaluation of an agency’s total office and warehouse square footage.

Since the establishment of OMB Memorandum M-12-12, the Small Business Administration has successfully reduced its real estate footprint. SBA’s Freeze the Footprint 2012 baseline was 1,374,644 square feet. In FY 2013, the SBA reduced its footprint by 1.6 percent, to 1,352,162 square feet. In 2014, SBA’s footprint further reduced to 1,319,731 square feet. The table below summarizes the status of current SBA space management projects:

Following is the SBA annual report:

FREEZE THE FOOTPRINT BASELINE COMPARISON			
	FY 2012 Baseline	FY 2014 Actuals (CY - 1)	Change (FY 2012 Baseline-2014 (CY-1))
Square Footage (SF in Millions)	1.375	1.319	0.056

Reporting of O&M Costs – Owned and Direct Lease Buildings

The SBA only occupies buildings that are leased by GSA and subject to Occupancy Agreements between GSA and the SBA, which are explicitly excluded from reporting in the Circular A-11.

The space reductions mentioned in the 2013 Agency Freeze the Footprint update were completed in 2014 and 2015. Additional space reductions may become possible as a result of the ongoing space utilization survey and will be included in future updates. In FY 2015, the SBA reduced the footprint by approximately 26,415 square feet. SBA’s preliminary projection for FY 2016 is 10,505 square feet of space reduction; however this projection will be reviewed and finalized in the upcoming Five Year Real Property Efficiency Plan. Due to changing mission requirements, the SBA added small amounts of space in Washington, D.C. and Federal Way, Washington, and is in the process of adding additional space in Atlanta, Georgia.

CIVIL MONETARY PENALTY ADJUSTMENT FOR INFLATION

The Federal Civil Penalties Inflation Adjustment Act of 1990, as amended, requires agencies to make regular and consistent inflationary adjustments of civil monetary penalties to maintain their deterrent effect. To improve compliance with the Act, and in response to multiple audits and recommendations, agencies must report the most recent inflationary adjustments to civil monetary penalties to ensure penalty adjustments are both timely and accurate.

At this time, the SBA does not have any Federal Civil Penalties

